

Message Text

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ACTION EA-12

INFO OCT-01 EUR-12 ISO-00 SP-02 USIA-15 AID-05 EB-08
NSC-05 SS-15 STR-07 OMB-01 CEA-01 CIAE-00 COME-00
FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06 LAB-04
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P R 010920Z FEB 78
FM AMEMBASSY TOKYO
TO SECSTATE WASHDC PRIORITY 4884
TREASURY DEPT WASHDC PRIORITY
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME

UNCLAS SECTION 1 OF 2 TOKYO 1700

USEEC

USOECN ALSO FOR EMBASSY

E.O. 11652: N/A
TAGS: EFIN, JA
SUBJECT: FINANCIAL AND ECONOMIC DEVELOPMENTS - JAN 26-FEB 1

1. SUMMARY: GOJ SOFTENS OPPOSITION TO INCOME TAX CUT.
SUPPLEMENTARY BUDGET PASSES DIET; ACCELERATION OF PUBLIC
WORKS ON TRACK. EMERGENCY IMPORTS EXPECTED TO TOTAL \$1 BIL
IN JFY 1977. UNOFFICIAL GOVT COUNCIL REPORT REPORTEDLY SEES
6 PERCENT AVERAGE GROWTH THROUGH 1982. PRESS PUBLISHES REAL
COMPONENTS OF OFFICIAL 7 PERCENT GROWTH FORECAST. NEW
CONSTRUCTION ORDERS UP IN DEC. TOKYO CPI UP 0.7 PERCENT IN
JAN. LITTLE CHANGE IN AVERAGE SAVINGS RATES IN NOV. FURTHER
PICKUP IN FOREIGN YEN BOND ISSUES EXPECTED. END SUMMARY.

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2. SUBTLE SIGNS OF A SOFTENING OF THE GOVERNMENT'S
OPPOSITION TO INCOME TAX CUTS EMERGED THIS WEEK. IN DIET
QUESTIONING ON FRIDAY, JAN 27, PRIME MINISTER FUKUDA SAID HE WAS
WILLING TO HEAR OUT OPPOSITION PARTY PROPOSALS FOR AN INCOME
TAX CUT AND WOULD NOT STICK STUBBORNLY TO THE GOVT'S ORIGINAL
BUDGET PROPOSALS JUST FOR THE SAKE OF CONSISTENCY. THE DAY
EARLIER CABINET SECRETARY ABE REPORTEDLY TOLD REPORTERS THE

RULING LDP PARTY LDP PARTY AND THE OPPOSITION PARTIES MIGHT HOLD TALK
S

ON THE SUBJECT OF AN INCOME TAX CUT IF THE OPPOSITION PARTIES
MADE A JOINT PROPOSAL. THE DIVERSE DEMANDS OF THE OPPOSITION
HAVE CENTERED ON A YEN 1 TRILLION CUT BUT A JOINT PROPOSAL
BY THE OPPOSITION PARTIES HAS NOT YET BEEN REPORTED.
MINISTRY OF FINANCE (MOF) IS LIKELY TO CONTINUE TO STRONGLY
OPPOSE. IN A DEFTLY TIMED RELEASE, MOF ON TUES, JAN 31,
ISSUED A STUDY SHOWING THAT OUTSTANDING NATIONAL BOND ISSUES
WOULD TOTAL AN "INTOLERABLE" YEN 122.9 TRILLION BY 1982 IF
PRESENT SPENDING TRENDS CONTINUED AND TAXES WERE NOT
INCREASED. INPRESENTING THE STUDY TO THE DIET JAN 31, FINANCE
MINISTER SAID MOF ANTICIPATED SIGNIFICANT TAX INCREASES
WOULD BE REQUIRED TO MEET ITS OBJECTIVE OF A BALANCE BUDGET
IN 1982.

3. ON TUES, JAN 31, THE UPPER HOUSE OF THE DIET APPROVED
THE YEN 562.2 BIL SUPPLEMENTARY BUDGET FOR JFY 1977. IN A
SEPARATE DEVELOPMENT, MOF ON THE SAME DAY ANNOUNCED THAT AS
OF DEC 31 CONTRACTS HAD BEEN LET FOR 83.6 PERCENT OF THE
TOTAL PUBLIC WORKS PROJECTS BUDGETED FOR JFY 1977 UNDER
THE PREVIOUSLY ADOPTED ORIGINAL AND SUPPLEMENTAL BUDGETS.
THE 83.6 FIGURE IS BASED ON APPROPRIATIONS FOR YEN 10.7
TRIL OF PUBLIC WORKS PROJECTS UNDER BOTH THE GENERAL
ACCOUNT AND FISCAL LOAN AND INVESTMENT PROGRAMS (FLIP)
BUDGETS. WITH THE ACCELERATION OF PUBLIC WORKS CONTRACTING
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ON TRACK, MOF REPORTEDLY BELIEVES THAT PUBLIC WORKS
AUTHORIZED FOR JFY 1977, INCLUDING THE SECOND SUPPLEMENTAL,
WILL BE FULLY CONTRACTED FOR BY THE END OF THE FISCAL YEAR
ON MAR 31.

4. IN THE COURSE OF DIET QUESTIONING THIS WEEK, ECONOMIC
PLANNING AGENCY DIRECTOR GENERAL MIYAZAWA REPORTED THE
EMERGENCY IMPORT PROGRAM WOULD ADD \$1 BIL TO JAPAN'S IMPORTS
DURING JFY 1977. THIS BREAKS DOWN AS
FOLLOWS:

PROGRAMS UNDER MITI SUPERVISION:	\$ MIL
URANIUM IMPORTS	140
CRUDE OIL STOCKPILING	400
NON-FERROUS METAL STOCKPILING	100
NAPHTHA IMPORTS	140
	\$780
PROGRAMS UNDER AG MINISTRY SUPERVISION:	
LIVESTOCK FEED IMPORTS	24.2
FOOD STOCKPILING	27.2
EXPANSION OF AG IMPORT QUOTAS	160
	\$211.4

5. ON JAN 30 A PRELIMINARY PROJECTION OF JAPAN'S ECONOMIC GROWTH FOR THE NEXT FIVE YEARS WAS RELEASED BY THE ECONOMIC COUNCIL, AN ADVISORY BODY TO THE PRIMIN. THE PROJECTIONS IN NO WAY REPLACE THE OFFICIAL 1976-80 FIVE-YEAR ECONOMIC PLAN APPROVED IN 1976. HOWEVER, THEY DO GIVE THE VIEWS OF OFFICIALS AS TO THE LIKELY COURSE OF DEVELOPMENTS OVER THE NEXT FIVE-YEAR PERIOD. JAPANESE GNP IS PROJECTED TO GROW AT ANNUAL RATE OF SLIGHTLY MORE THAN 6 PERCENT IN REAL TERMS DURING JFY 1976-80, JUST AS IN THE OFFICIAL ECONOMIC PLAN, BUT GROWTH RATES FOR INDIVIDUAL GNP COMPONENTS CONTRAST SHARPLY WITH THOSE PROJECTED IN THE FIVE-YEAR PLAN. IN THE LATEST FORECAST, ALL MAJOR ELEMENTS OF GROWTH IN PRIVATE SECTOR ARE REVISED DOWNWARD WHILE GOVT FIXED CAPITAL FORMATION IS REVISED UPWARD. THE COUNCIL'S PROJECTIONS FOR

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THE CURRENT ACCOUNT WERE NOT INCLUDED IN THE OFFICIAL VERSION OF THE PROJECTIONS BUT PRESS STORIES SAY COUNCIL ECONOMISTS BELIEVE THAT ON THE BASIS OF THEIR PROJECTIONS FOR REAL NET EXPORTS CURRENT ACCOUNT SURPLUSES WILL CONTINUE UNTIL JFY 1982. FOR JFY 1980 A \$1 BIL SURPLUS IS PROJECTED. (EMBASSY CONFIRMED THE ACCURACY OF THESE PRESS ACCOUNTS WITH EPA, THE PRINCIPAL AUTHOR OF THE REPORT).

FOLLOWING ARE PROJECTIONS RELEASED BY THE ECONOMIC COUNCIL JAN 30 (IN TRILLIN YEN, IN REAL TERMS AT 1970 PRICES PERCENT CHANGE IN PAREN AT ANNUAL RATE):

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	JFY 1980		JFY 1982	
	A	B	A	
GNP	126 (SLIGHTLY MORE THAN 6)	125.5(6.25)	142(SLIGHTLY MORE THAN 6)	
PVT. CON-	63(SLIGHTLY LESS THAN 5)	65(5.5)	68 (SLIGHTLY LESS THAN 5)	
GOVT CURRENT				
CONSUMPTION	10 (SLIGHTLY MORE THAN 4)	10 (4)	11 (SLIGHTLY MORE THAN 4)	
GOVT FIXED CAPITAL	15 (SLIGHTLY MORE THAN 11)	13 (7.25)	18 (SLIGHTLY MORE THAN 10)	
PVT. PLANT & EQUIP.INV.	19 (SLIGHTLY LESS THAN 6)	20 (7)	22 (SLIGHTLY MORE THAN 6)	
PVT.HOUSING INVEST.	9 (SLIGHTLY LESS THAN 7)	9.5(7.75)	11(AROUND 7)	
NET EXPORTS	7 (N/A)	5.5 (N/A)	8 (N/A)	

NOTE: A. LATEST ECONOMIC FORECAST
 B. FIVE-YEAR ECONOMIC LAN

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6. NIHON KEIZAI THIS WEEK PUBLISHED A TABLE GIVING A BREAKDOWN OF THE OFFICIAL 7 PERCENT REAL GROWTH FORECAST INTO ITS CONSTITUENT REAL ELEMENTS. THIS TABULATION IS NORMALLY RELIABLE THOUGH THE GOVT OFFICIALLY WILL ONLY PRESENT THE ELEMNTS OF ITS GROWTH FORECAST IN NOMINAL TERMS.

GOJ ECONOMIC FORECAST				
(PERCENT CHANGE FROM PRIOR YEAR)				
	IN NOMINAL TERMS		IN REAL TERMS(NOTE)	
	FY 77	JFY 78	JFY 77	JFY 78
PVT. CONSUMPTION	11.4	11.9	3.9	5.3
PVT. HOUSING INVEST.	7.5	13.6	3.9	9.8
PVT. PLANT AND EQUIP. INVESTMENT	3.0	9.9	0.9	6.7
PVT. INVENTORIES INVESTMENT	3.0	24.6	1.3	21.3
GOVT. EXPENDITURE	14.6	15.8	10.8	11.4
CURRENT EXPENDITURE	11.6	11.4	5.0	5.7
CAPITAL EXPENDITURE	18.2	20.8	16.1	16.2
NET FOREIGN SURPLUS				

EXPORTS	9.9	1.2	5.1	2.9
LESS: IMPORTS MIN	4.4	6.1	0.2	4.2
GNP	11.1	12.0	5.3	7.0

NOTE: SOURCE: NIKKIE, JAN 29, MORNING, PAGE 1

GOJ HAS NEVER RELEASED REAL TERM GROWTH RATES FOR GNP COMPONENTS.

7. NEW CONSTRUCTION ORDERS, S.A., REBOUNDED IN DEC, UP 3.4 PERCENT OVER PIOR MONTH'S LEVEL, BUT FOR FOURTH QUARTER AS A WHOLE INCREASE IN NEW CONSTRUCTION ORDERS WAS UP ONLY 0.9 PERCENT COMPARED WITH 2.3 PERCENT INCREASE IN THE THIRD UNCLASSIFIED

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QUARTER. NE PRIVATE CONSTRUCTION ORDERS WERE UP A STRONG 16.5 PERCENT DURING OCT-DEC QUARTER OF 1977, AFTER DECLINING IN PRECEDING THREE QUARTES. BULLISH PRIVATE ORDERS DURING THE FOURTH QUARTER, HOWEVER, WERE SOMEWHAT OFFSET BY THE DECLINE IN ORDERS PLACED BY GOVT AND PUBLIC AGENCIES (DOWN 18.1 PERCENT). FOR THE FULL YEAR 1977, NEW CONSTRUCTION ORDERS INCREASED VERY RAPIDLY, UP 11.4 PERCENT, IN CONTRAST TO THE MEAGER 0.7 PERCENT INCREASE IN 1976. RAPID RECOVERY IN 1977 WAS PRIMARILY ATTRIBUTABLE TO GOVT SECTOR, WHICH SHOWED 19 PERCENT INCREASE FOR 1977 IN CONTRAST TO THE DECLINE IN 1976. PRIVATE CONSTRUCTION ORDERS ALSO ACCELERATED IN 1977, RISING BY 8 PERCENT AS COMPARED WITH THE 1.2 PERCENT ADVANCE IN 1976.

NEW CONSTRUCTIN ORDERS

(IN BIL YEN: PERCENT CHANGE FROM PRIOR PERIOD)

GOVT/PUBLIC	PRIVATE	TOTAL (NOTE)
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(JEI 324)	(JEI 325)	(JEI 323)
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RECENT MONTHS (S.A.):

OCT	255.9 (-16.3)	302.6(23.2)	567.9 (4.9)
NOV (REV)	214.0 (-12.1)	283.1(-4.0)	559.1 (-1.5)
DEC (PRE)	243.6 (13.8)	295.0 (4.2)	578.0 (3.4)

RECENT QUARTERS (MONTHLY AVERAGE, S.A.):

JAN-MAR	235.1 (14.1)	268.3 (-1.4)	543.1 (3.2)
APR-JUNE	240.8 (2.4)	265.5 (-1.1)	550.8 (1.4)
JUL-SEP	290.4 (20.6)	251.9 (-5.1)	563.5 (2.3)
OCT-DEC	237.8 (-18.1)	293.5 (16.5)	568.4 (0.9)

RECENT YEARS (MONTHLY AVERAGE):

1976	211.1 (-.3)	249.1 (1.2)	499.2 (0.7)
1977	250.2 (18.5)	268.8 (7.9)	556.1 (11.4)

NOTE: TOTAL INCLUDES OTHERS.

8. TOKYO CONSUMER PRICES IN JAN ROSE 0.7 PERCENT (N.S.A.) (SEE TOKYO 1445). TOKYO CPI IN JAN UP 4.4 PERCENT OVER YEAR EARLIER. NATIONAL CPI DECLINED 0.1 PERCENT IN DEC FOR A 5.0 PERCENT INCREASE OVE YEAR-EARLIER FIGURES.

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9. AVERAGE PROPENSITY TO SAVE OF WORKERS HOUSEHOLDS, ROSE SLIGHTLY IN NOV, THOUGH HAS REMAINED VIRTUALLY UNCHANGED DURING LAST THREE MONTHS AS AROUND 24 PERCENT OF DISPOSABLE INCOME. NOV SAVINGS RATE WAS HIGHER THAN THE AVERAGE OF SECOND OR THIRD QUARTER OF LAST YEAR BY AROUND TWO PERCENT.

AVERAGE PROPENSITY TO SAVE (PERCENT OF
DISPOSABLE INCOME, S.A., JEI 363)

SEP 23.8

OCT 23.1

NOV 23.9

10. YEN BOND ISSUES BY FOREIGN INSTITUTIONS ARE LIKELY TO ACCELERATE FURTHER IN APRIL. NIHON KEIZAI DATED JAN 26 REPORTED FOUR FOREIGN YEN BOND ISSUES AMOUNTING TO ABOUT 90 BIL YEN ARE SCHEDULED FOR APRIL, BRING SUCH BOND FLOTATION FOR FIRST FOUR MONTHS OF THIS YEAR TO TOTAL 290 BIL YEN (TOKYO 470, PARA 6). FOREIGN YEN BOND ISSUES SCHEDULED FOR APRIL AS FOLLOWS: NORWEGIAN GOVT (25 BIL YEN); SWEDISH GOVT (30 BIL YEN); ARGENTINE GOVT (15 BIL YEN); SPANISH NATIONAL RAILWAYS (15 TO 20 BIL YEN).
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